

ALGONA MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

DECEMBER 31, 2022

T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants

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**ALGONA MUNICIPAL UTILITIES
OFFICIALS**

DECEMBER 31, 2022

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Julie Murphy	Chairperson	May 2025
Mike Sabin	Trustee	May 2024
Karen Schaaf	Trustee	May 2026
Jay Geving	Trustee	May 2027
Donald Heupel	Trustee	May 2023
John Bilsten	General Manager	Indefinite
Robert Harrington	Chief Financial Officer	Indefinite



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Algona Municipal Utilities
Algona, IA

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of each major fund of Algona Municipal Utilities (the Utility), a component unit of the City of Algona, Iowa, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Utility's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Algona Municipal Utilities, as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Utility and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 21 to the financial statements, the Utility adopted new accounting guidance related to Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that arise substantial doubt about the Utility's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GASS and *Governmental Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Governmental Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Utility's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis, the Budgetary Comparison Information, the Schedule of the Utility's Proportionate Share of the Net Pension Liability, the Schedule of Utility Contributions, and the Schedule of Changes in the Utility's Total OPEB Liability on pages 5 through 12 and 45 through 50 be presented to supplement the financial statements. Such information is the responsibility of management and, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the report. The other information comprises the statistical comparative summaries but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2023 on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance

TP Anderson & Company, P.C.

Humboldt, Iowa

April 26, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Algona Municipal Utilities (the Utility) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2022. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ◆ The Utility's operating revenues decreased by 19.6%, or approximately \$6 million from calendar year 2021 to calendar year 2022.
- ◆ Operating expenses decreased by 11.0%, or approximately \$2.8 million in 2022 from 2021.
- ◆ The Utility's net position increased by 4.7%, or approximately \$1.6 million during 2022.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- ◆ Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.
- ◆ The Statement of Net Position presents information about the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the Utility's net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.
- ◆ The Statement of Revenues, Expenses, and Changes in Net Position presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses, and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.
- ◆ The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year as a result of operations, noncapital financing activities, capital and related financial activities, and investing activities. This information can assist in determining how the Utility financed its activities and how it met cash requirements.
- ◆ Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- ◆ Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year, the Utility's proportionate share of net pension liability and related contributions, as well as presenting the Schedule of Changes in the Utility's Total OPEB Liability.

FINANCIAL ANALYSIS OF THE UTILITY

The condensed statement of net position, shown below, shows how assets and liabilities have changed from 2021 to 2022. Total assets increased approximately \$818,000 while liabilities decreased by approximately \$3,564,000.

	Statements of Net Position (Expressed in Thousands)	
	Year ended December 31,	
	2022	2021
Current assets	\$ 14,312	12,967
Noncurrent assets	40,179	40,706
Total assets	54,491	53,673
Deferred outflows of resources	786	1,013
Current liabilities	4,577	4,603

Noncurrent liabilities	12,965	16,502
Total liabilities	17,542	21,105
Deferred inflows of resources	2,647	92
Net position:		
Net investment in capital assets	20,959	19,988
Restricted	2,431	3,249
Unrestricted	11,698	10,252
Total net position	\$ 35,088	33,489

The following analysis focuses on the change in net position for the combined divisions of the Utility.

Statements of Revenues, Expenses, and Changes in Net Position (Expressed in Thousands)		
	Year ended December 31,	
	2022	2021
Operating revenues	\$ 24,204	30,121
Operating expenses	22,522	25,311
Income from operations	1,682	4,810
Nonoperating income	265	396
Nonoperating expenses	(348)	(437)
Net nonoperating expense	(83)	(41)
Change in net position	1,599	4,769
Net position, beginning, as restated	33,489	28,720
Net position, ending	\$ 35,088	33,489

INDIVIDUAL MAJOR FUND ANALYSIS

As the Utility completed the year, its enterprise funds reported a combined fund net position of \$35 million. The following are the major reasons for the changes in fund net position of the major funds from the prior year:

- Electric Fund operating revenue for the year was \$18.5 million, a decrease of approximately \$6 million from 2021. The decrease was mainly due to sales for resale which decreased approximately \$7.4 million. Operating expenses decreased in 2022 by approximately \$2.8 million. The decrease was primarily due to generation and power purchased costs which decreased \$3.4 million in 2022.

The Electric Utility's net position increased approximately \$910,000 in 2022.

- Water Fund operating revenue for the year was \$1.9 million, which is an increase of approximately \$51,000 from 2021. The increase was due to lease revenue recognized during the year. Operating expenses remained relatively consistent, increasing in 2022 by approximately \$114,000.

The Water Utility's net position increased approximately \$252,000 in 2022.

- Communications Fund operating revenue for the year was \$3.8 million, an increase of approximately \$20,000 from 2021. The increase is primarily due to the increase of sales to customers in internet services, likely related to the implementation of the fiber to the premise project.

Operating expenses decreased in 2022 by approximately \$128,000 to \$3.3 million. The decrease was due to lower IPERS withholding expense.

The Communication Utility's net position increased approximately \$437,000 in 2022.

BUDGETARY HIGHLIGHTS

During the year, the budget was amended to capture higher purchased power costs. Disbursements during the year ended December 31, 2022 did not exceed the amounts budgeted.

CAPITAL ASSETS

At December 31, 2022, the Utility had approximately \$33.1 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a decrease (including additions and deletions net of depreciation) of approximately \$481,000 over 2021.

	Capital Assets at Year-End (Expressed in Thousands)	
	Year ended December 31,	
	2022	2021
Land	\$ 700	700
Construction in progress	768	437
Buildings and improvements	1,560	1,561
Equipment and vehicles	1,006	1,137
Infrastructure	29,838	30,187
	<u>\$ 33,872</u>	<u>34,022</u>

The Utility had depreciation expense of \$2.9 million during the year ended December 31, 2022 and total accumulated depreciation of \$54.2 million at December 31, 2022.

LONG-TERM DEBT

At December 31, 2022, the Utility had approximately \$12.6 million in revenue bonds and other debt outstanding. Compared to approximately \$15.6 million at December 31, 2021, as shown below:

	Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended December 31,	
	2022	2021
Revenue bonds	\$ 10,098	10,793
Other long-term debt	2,464	4,809
	<u>\$ 12,562</u>	<u>15,602</u>

At December 31, 2022 and 2021 the Communications Fund owed the Electric Fund \$2,621,211 and \$3,017,900 respectively, under an interfund loan agreement established to finance a broadband telecommunications network. The loan agreements call for interest to accrue at rates ranging from 0.88% to 1.33% per year and to be repaid by December 1, 2030.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Algona Municipal Utilities appointed officials consider many factors when setting the calendar year 2023 budget including rates that will be charged for the services the Utilities provide, future expansions, and capital improvements. Estimated receipts available for appropriation in the operating budget are \$24.4 million. Estimated disbursements in the operating budget are \$24.0 million. The difference between receipts and disbursements are used to cover capital expenditures in future years.

Algona Municipal Utilities takes pride in excellent customer service and high quality, reliable utilities. The Utility exists to serve our community by providing comfort through reliable and affordable water, electric, and communications services. At the same time, the Utility embraces innovative technology to meet our customers' needs. The Utility's local employees make the difference in providing outstanding electric, water, and communications services. The electric, water, and communications utilities continue to invest in necessary system improvements each year to enhance reliability, efficiency, and safety.

Electric Fund

- The Utility will continue to be environmentally responsible and work to develop sustainable resource portfolios, because doing so benefits our community.
- The Utility continues to look at renewable energy options and expanded energy efficiency offerings as ways to mitigate the cost of new and proposed environmental regulations on our consumer/owners.
- In 2021, the Utility began working with Iowa State University (ISU) and the Department of Energy (DOE) on a project that will include better control equipment for our wind farm along with enhanced communications between the wind farm and the Supervisory Control and Data Acquisition (SCADA) system. New controls were installed in 2022 to allow for better operations based on voltage conditions. A new SCADA interface will be installed in early 2024 to allow for better operation of the wind farm and increased capacity factors that will result in more wind production in the future. The Utility will continue to work with ISU and the DOE to identify projects with a goal to become more energy independent.
- In 2022, the Utility worked with the City of Algona to install two (2) Level 2 Electric Vehicle chargers at City owned parking lot located at the corner of Call and Moore Streets. The Utility will continue to identify additional sites for Level 2 chargers and potentially DC fast charging technology within Algona.
- The Utility is closely monitoring advancements in the electric vehicle market along with electric vehicle charging technology. It is the goal of the Utility to be ready for the changes needed to embrace this new technology with improvements to our distribution system, along with rates that encourage electric vehicle charging off peak.
- In 2023, the Utility will take ownership of a new light duty electric pickup. Ownership of the pickup will allow the Utility to promote electric vehicles, while learning about the operation characteristic and maintenance costs of electric vehicles. In the future, the Utility will continue to evaluate purchasing electric vehicles that meet our needs.
- In 2017, the Utility took full ownership of the Iowa Distributed Wind Generation Project (IDWGP) to assure that renewable energy from wind is part of our overall portfolio of generation resources. The Utility entered into an operating agreement with Trinity Wind, LLC in October 2017 to operate the wind farm for the Utility. This project is connected directly to the Utility electric distribution system. In 2022, the wind farm produced approximately 4.25% of the energy consumed by the consumer-owners of the Utility or 5.0 million kWh's.
- The Utility through its membership with the North Iowa Municipal Electric Cooperative Association (NIMECA) continues to pursue cost effective long-term purchase power agreements from large scale wind farms and solar farms. On March 31, 2021, the AMU Board of Trustees approved the Willow Creek Wind Energy Facility Agreement for the acquisition of wind energy through participation in the Willow Creek Wind Energy Facility Power Purchase Agreement (PPA). Under the agreement NIMECA entered into the PPA and AMU committed to our participation in the Agreement. The Wind Project is comprised of five (5) GE 116 2.3 megawatt and thirty-three (33) GE 127 2.78-megawatt wind turbines in Butte County, South Dakota with an aggregate nameplate capacity of approximately 103.2 megawatts. In 2022, the Utility's share of the Willow Creek Wind Energy Facility produced 46.5 million kWh. The combination of both wind farms resulted in over 51.5 million kWh of energy for Algona, of which 46% was produced by non-carbon resources.
- The Utility's electric transmission and generation system has operated in the Southwest Power Pool (SPP) since October 2015. The entrance to SPP has resulted in operational changes at our owned and contracted power production and transmission facilities. The Electric Utility has experienced changes in how it purchases and sells energy and makes investments in electric transmission facilities. AMU

through its membership in NIMECA utilizes Basin Electric Power Cooperative (Basin), with headquarters in Bismarck, ND, to provide energy market services for our jointly owned coal fired power plant (Neal 4) and our local diesel plant. Basin also purchases excess generation capacity from our local plant. This agreement requires the plant to meet all current EPA regulations for reciprocating internal combustion engines. In addition, the Utility must keep the engines in good working condition and ready to run at any time. Over the last few years, important maintenance and capital upgrades have taken place at the local AMU power plant generation units. In 2023, engineering work will be finalized for the switchgear and relay upgrades at the Power Plant. The installation of new switchgear and relays will take place in 2024.

- The Utility follows a proactive approach to capital expenditure planning for the electric utility. In 2022, an electric system long range plan was completed by DGR Engineering. The plan is an important tool for utility staff including an updated 10-year capital improvement plan with cost estimates for budgetary purposes that are tied to either specific dates or to load levels for capital improvement budget planning.
- Each year, the electric utility converts a portion of the overhead electric system to a more reliable underground electric infrastructure. In 2022, the electric utility continued to convert overhead to underground in an area along East McGregor Street near 132nd Avenue, between Johnson Street and Diagonal Street south of Oak Street and along 132nd south of McGregor Street. New electric underground infrastructure was also installed along Highway 18 East to serve a new auto parts store moving to Algona. The new underground in these areas serve approximately 50 customers. Additional construction of buildings along East Oak Street led to infrastructure improvements serving approximately six (6) new buildings in this area.
- In 2023, overhead to underground electric conversions will continue in the east part of Algona with a focus on in an area from Linden Street to Call Street between Putnam and Lantry Streets.
- In 2023, work continues on converting main electric distribution feeders from overhead to underground. A major project will be the conversion of a section of Feeder #5 along South Thorington Street from Kennedy Street to Fair Street. This conversion takes place in area with dense tree population. This conversion will reduce losses through more efficient electric conductor and eliminate exposure to trees.
- In 2022, the Utility began installing new electric infrastructure for a new hotel/conference center located on the west side of Algona. This electric infrastructure will be completed in 2023.
- The Utility has converted all street and security lighting to LED lights. This commitment to more energy efficient streetlights and security lights is part of the Utility's mission to reduce energy and maintenance costs resulting in a reduction in maintenance and operational costs for the Utility's consumers and owners and the citizens of Algona.
- In mid-February 2021, the Utility saw an unprecedented set of events that affected the reliability of the power grid throughout the central United States. The Utility was notified on February 15, 2021 that the Southwest Power Pool (SPP) declared an Energy Emergency Alert Level 3. SPP issued the alert because electric generation in the SPP region was not sufficient to meet the demand for electricity caused by record low temperatures through the country, including regions typically not impacted by winter weather. At the time SPP announced the Level 3 Alert, it called for all generation to operate, including the local generation resources owned by the Utility and all other members of NIMECA. The local generation of the Utility along with other generation owned by NIMECA members helped stabilize the grid. This was the first time in SPP's 85-year history that it declared Levels 2 or 3 for its region, and it was also the first time SPP had to implement rolling blackouts to prevent widespread power outages. Thanks to our local generation ability, the Utility was not forced to implement rolling blackouts. The generation portfolio of the NIMECA members, including coal, diesel, natural gas, and wind provided an important hedge against extremely high market power costs. This weather event underscores the need for a diverse mix of generation resources as well as a commitment to maintaining and upgrading those resources owned by the Utility.
- In recognition of large scale power outages in February 2021, the Utility Board of Trustees engaged DGR Engineering to perform a feasibility study to develop and analyze options associated with adding approximately 10-20 MW of generation to the Utility electrical system. The study should be completed in late 2023.

- The Utility continues to review other generation options for Algona, including cost effective utility grade solar. The addition of local solar may provide an important source of local energy while reducing high cost energy purchases during peak energy periods.
- Based on estimates provided by staff at MidAmerican Energy, the operating entity for Neal 4, it is anticipated that the Neal 4 Power Plant will reach its useful life in the year 2040. The Utility continues to monitor the impact of new generation resources in the electric energy market including wind, solar and gas and the impact they may have on Neal 4 and other generation resources. The Utility is also monitoring the environmental pressure on fossil fuel generation facilities. The Utility keeps in close contact with MidAmerican Energy, to determine if there are any plans for the sale of, or the early retirement of the Neal 4 Power Plant. There could be decommissioning costs associated with the retirement of the Neal 4 facility. Those costs have not been determined. Currently, we do not know of any plans to retire the plant earlier than 2040.
- The Utility owns an undivided 4.18% ownership interest, as a tenant in common, in certain transmission assets known as Lehigh-Webster Transmission. The ownership of Lehigh-Webster Transmission is no longer necessary for AMU's operation, and it is appropriate and prudent for AMU to sell its ownership interest in the Lehigh-Webster Transmission. MidAmerican Energy Company has agreed to purchase AMU's ownership interest in the Lehigh-Webster Transmission pursuant to an Asset Purchase Agreement with MidAmerican. AMU's ownership interest in the Lehigh-Webster Transmission includes an ownership interest in real property. The sale of AMU's ownership interest in the Lehigh-Webster Transmission and real property owned under the Transmission Agreement will require an amendment of the Transmission Agreement (the "Amendment") to reflect that AMU will no longer be a participant and joint owner therein. The sale was completed on December ,2022 and AMU received a payment from MidAmerican Energy of \$482,349.60. The sale of these assets reduces costs by eliminating all O&M and capital improvements on the Lehigh-Webster line.
- The ownership and use of the Lehigh-Webster assets required a lease allowing capacity on the section of the electric transmission line call the Raun to Lehigh lease. The lease includes a clause that requires a 4 year termination notice. The fee to terminate the lease is currently being negotiated.

Water Fund

- Each year, the water distribution system replaces undersized water mains and continues to loop the distribution system. These improvements to the water distribution system increase fire protection, enhance water quality and provide increased water pressure and flow to a growing water distribution system. System improvements are also accomplished each year to serve new developments in Algona.
- The water utility acknowledges the continued need for capital improvements and the rising costs of those improvements. To facilitate the cost of capital improvements, the Board approved an Infrastructure Reinvestment Fee (IRF) with new rates effective in May 2019. The IRF is intended to be used for replacing or renewing old infrastructure that is nearing the end of its useful life. There continues to be a sizable number of unmet infrastructure needs, and the Utility desires to improve the system and avoid unnecessarily excessive costs due to emergency shutdowns and repairs. Annual capital improvement spending has increased over the past decade. Through the IRF, funds will be available to meet the infrastructure needs and reduce the amount of debt financing in the future.
- The Utility completed the replacement of filter media at the water treatment plant in March 2023. The replacement enhances the ability to remove iron and manganese in the treatment process. In addition, sodium permanganate will be added to the treatment process in 2023 to further reduce the amount of debt financing in the future.
- In 2023, the Utility will participate with the City of Algona on a complete street and infrastructure improvement project on Wooster Street from McGregor to Kennedy Street, replacing 4" and 6" cast iron water main with 8" PVC water main improving flows and fire protection in this area.
- A one block section of undersized 4" cast iron water main on Durant Street will be replaced with a 6" PVC water main.
- Another water main replacement will take place on Elm Street from Diagonal to Roan Street replacing a 4" cast iron water main with an 8" PVC water main. This section of water main has encountered several water main breaks over the last few years.

- In 2023, the Utility will complete a water main installation project along Highway 18/220th Street and 100th Street. The project will improve water quality and provide redundancy by completing a loop on the west side of the distribution system. This loop will improve flows and system pressures to the Algona Municipal Airport, Suida Health and Production (a swine exclusive veterinary clinic) and the Iowa Department of Transportation office. The loop will also improve flows and pressures to the single-family homes in the Country Club neighborhood and to all of the commercial properties along and north of Highway 18 from Country Club Drive to East Norwood Drive. The first phase of this project began in 2022 with the installation of approximately 600' of 12 PVC water main for the development of a new hotel at the west end of the existing 12" DIP water main. The extension will connect to the remainder of the Highway 18 water main loop project to be constructed in 2023.
- The Utility continues to plan for the future water needs of our community. In 2018, the Utility entered into an agreement to purchase approximately 40 acres of land located west of our current well field. This land will be used for future well field development. In 2023, the Utility retained DGR Engineering to complete an analysis of a portion of this land to determine the feasibility of constructing new holding/seepage pond for backwash waste disposal.
- DGR Engineering was retained by the Utility to perform a comprehensive study of the water system facilities. The purpose of this water system study is to proactively study the condition of the existing system and consider the need for potential system improvements. The study was completed in 2022 and identified short-term and long-term needs for the system. In addition, the study evaluated construction of a new well on the land recently purchased by AMU. The results of the study will help determine the needs of the systems over the next 10+ years.

Communications Fund

- The Utility continues to expand fiber to the premise system with plans to expand that system throughout the entire communications service territory in future years. The fiber system provides increased bandwidth to the Utility customer/owners at a competitive price while enhancing economic development opportunities for the community. Algona Industrial businesses and several residential customers already have access to fiber service providing speeds from 1 Mbps to 1 Gbps. These speeds are only offered in a small number of communities throughout the U.S. As more content is offered by Internet, expansion of the fiber network is a key priority for the Utility.
- The Communications Utility continues to upgrade infrastructure to enable increased bandwidth services to our customers. The system continues to meet the demands of our customers by providing more bandwidth.
- In 2019, the Utility began offering a new video service called Dynamic TV, made possible through a partnership with Northwest Communications and Northern Iowa Communications Partners. This partnership allows the Utility to receive better programming and to control video costs. Dynamic TV replaces the existing video product and offers a significant increase in High-Definition channels, enhanced video quality, cloud DVR service and advanced services like restart TV. This new service enhanced value to customers with enhanced video quality. The conversion to the new Dynamic TV system was completed in 2021. The conversion of bulk cable customers was completed in early 2022 consisting of schools, care facilities, assisted living facilities and the Algona Family YMCA.
- The Utility continues to look at project synergies to allow for multiple utility benefits associated with one project. The electric utility typically installs fiber optic infrastructure at the same time it installs new electric infrastructure. In 2023, the electric utility will continue to assist the communications utility in expanding fiber optic to more areas of Algona.
- The electric and communication utilities continue to work together on the long-term design of an all-fiber based network. This design will allow the Utility to continue conversions to fiber and be ready to take advantage of any state or federal funds for fiber deployment allowing us to provide increased bandwidth to our customers.
- Over the new two years, fiber will be deployed to another 600 homes in the east part of Algona. Once complete, nearly 50% of the Utility's communications system customer base will be connected to fiber allowing for increased bandwidth.

Customer Service

- Customer engagement is an important goal of the Utility. The Utility's investment in Automated Metering Infrastructure (AMI) allows employees to investigate high usage and quickly resolve water leaks within a customer premise. A customer website portal is available for customers to check their current bill and make payments. In addition, the customer portal allows the customer to see daily usage of both electric and water service. The AMI system also provides real time outage management data on the electric system. The data helps pinpoint electric system problems allowing crews to restore power outages in a timelier manner. The Utility knows that over time, more of our customers are going to want to use technology that monitors and controls their electric and water usage. We are up to the task of meeting their needs.
- In January 2020, the Utility added new customer care and billing software providing a new utility billing format, enhanced meter data management and a new customer portal to better understand utility usage and billing. A conversion to new accounting and business solutions software took place in June 2020. After several months of planning, the communications utility converted to a new customer care and billing software in early 2022. The new suite of software services has resulted in synergies between all utility sectors leading to consolidated customer billing in March 2022.
- The migration to a new billing software has allowed the Utility to introduce SmartHub. The new web portal and smart phone application allows customers to manage their utility account, view and pay utility bills online, monitor usage 24/7, report service issues, and receive important notices from the Utility.

Rates

- The Utility evaluates rates for all utilities on a regular basis. Water and electric rates are reviewed annually, and a comprehensive cost of service study is completed every five (5) years. In 2019 a cost-of-service study was completed for the water utility. The study assumptions were updated in 2020 to reflect increased capital improvement costs for projects completed in 2019. The Board reviews the rate assumptions versus our actual financial statements to determine if changes need to be made in the recommended annual rate increase amounts. Rate adjustments were approved for 2022 and implemented for water consumed in June 2022.
- An updated power supply cost and cash flow analysis for the electric utility will be completed in 2023. The analysis will be part of the development of time of use rates for the growth of electric vehicle chargers within the Utility service area.
- The Utility continues to recover costs through fixed rate components reducing our exposure to variable usage in both the water and electric utilities.
- An updated financial analysis of the communications utility was completed in early 2020. The study reviewed cash flows, costs, and retail prices. The analysis projected sub counts, revenues, and expenses through 2024. The resulting numbers were used to develop recommended revenue adjustments for communications services. This study will be reviewed each year through 2024 allowing the Board to determine necessary revenue adjustments based on current sub counts and expenses.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utility's finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact management at 104 West Call Street in Algona.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

STATEMENTS OF NET POSITION

DECEMBER 31, 2022 AND 2021

	ELECTRIC	
	2022	2021
Assets		
Current assets:		
Unrestricted cash and cash equivalents	\$ 8,909,694	8,114,589
Restricted cash and cash equivalents	140,164	138,604
Accounts receivable (net of allowance for doubtful accounts)	995,402	1,156,641
Unbilled usage	327,053	399,147
Current portion of lease receivables	4,321	4,145
Inventory	1,065,705	961,341
Prepaid expenses	122,222	111,805
Accrued interest receivable - interfund loan	2,721	3,122
Accrued interest receivable - leases	10,036	-
Interfund loan receivable - current portion	401,439	396,689
Total current assets	<u>11,978,757</u>	<u>11,286,083</u>
Noncurrent assets:		
Restricted cash and cash equivalents	1,068,793	1,551,740
Restricted short-term investments	850,554	1,116,707
Lease receivables, net of current portion	48,166	52,487
Capital assets, net of accumulated depreciation	24,402,556	25,201,924
Construction in progress	622,795	260,734
Investment in joint venture	159,998	145,042
Interfund loan receivable - net of current portion	2,219,773	2,621,211
Economic development loans receivable	834,129	835,933
Total noncurrent assets	<u>30,206,764</u>	<u>31,785,778</u>
Total assets	<u>42,185,521</u>	<u>43,071,861</u>
Deferred outflows of resources		
Deferred charge from refunding	29,632	37,198
Pension related deferred outflows	388,598	494,805
Asset retirement obligation related deferred outflows	205,154	246,185
Total deferred outflows of resources	<u>623,384</u>	<u>778,188</u>

See notes to financial statements.

WATER		COMMUNICATIONS		TOTAL	
2022	2021	2022	2021	2022	2021
926,958	793,862	646,515	377,706	10,483,167	9,286,157
35,177	28,714	-	-	175,341	167,318
160,355	147,397	303,363	175,480	1,459,120	1,479,518
49,212	42,854	-	-	376,265	442,001
35,899	33,820	50,370	46,947	90,590	84,912
35,167	28,277	11,220	16,279	1,112,092	1,005,897
38,516	39,185	36,116	35,431	196,854	186,421
-	-	-	-	2,721	3,122
2,162	-	2,550	-	14,748	-
-	-	-	-	401,439	396,689
1,283,446	1,114,109	1,050,134	651,843	14,312,337	13,052,035
335,458	350,090	-	-	1,404,251	1,901,830
-	-	-	63,540	850,554	1,180,247
368,386	404,284	422,695	473,065	839,247	929,836
6,615,898	6,097,493	2,085,072	2,285,097	33,103,526	33,584,514
144,539	-	-	176,958	767,334	437,692
-	-	-	-	159,998	145,042
-	-	-	-	2,219,773	2,621,211
-	-	-	-	834,129	835,933
7,464,281	6,851,867	2,507,767	2,998,660	40,178,812	41,636,305
8,747,727	7,965,976	3,557,901	3,650,503	54,491,149	54,688,340
-	-	-	-	29,632	37,198
52,697	80,027	109,505	154,403	550,800	729,235
-	-	-	-	205,154	246,185
52,697	80,027	109,505	154,403	785,586	1,012,618

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

STATEMENTS OF NET POSITION - continued

DECEMBER 31, 2022 AND 2021

	ELECTRIC	
	2022	2021
Liabilities		
Current liabilities:		
Accounts payable	506,105	550,259
Accounts payable - City of Algona	400,000	400,000
Accrued taxes	101,515	90,490
Accrued wages and compensated absences	443,859	420,414
Accrued interest payable	16,281	19,915
Other accrued expenses	-	135,461
Deferred revenue	-	-
Revenue bonds payable - current portion	1,394,135	1,351,696
Interfund loan payable - current portion	-	-
Other long-term debt - current portion	30,001	29,407
Total current liabilities	<u>2,891,896</u>	<u>2,997,642</u>
Noncurrent liabilities:		
Revenue bonds payable - net of current portion	5,346,878	6,743,166
Interfund loan payable - net of current portion	-	-
Other long-term debt - net of current portion	500,871	484,567
Accrued OPEB	548,915	400,981
Net pension liability	32,299	1,509,691
Deferred compensation liability	850,554	1,116,707
Total noncurrent liabilities	<u>7,279,517</u>	<u>10,255,112</u>
Total liabilities	<u>10,171,413</u>	<u>13,252,754</u>
Deferred inflows of resources		
Pension related deferred inflows	1,211,604	77,522
Lease related deferred inflows	52,487	56,632
Total deferred inflows of resources	<u>1,264,091</u>	<u>134,154</u>
Net position		
Net investment in capital assets	17,753,466	16,853,822
Restricted	2,059,511	2,807,051
Unrestricted	11,560,424	10,802,268
Total net position	<u>31,373,401</u>	<u>30,463,141</u>

See notes to financial statements.

Exhibit A - continued

WATER		COMMUNICATIONS		TOTAL	
2022	2021	2022	2021	2022	2021
90,719	95,454	249,106	242,868	845,930	888,581
45,000	45,000	5,120	5,129	450,120	450,129
7,698	4,626	15,830	12,187	125,043	107,303
44,353	37,514	102,858	100,363	591,070	558,291
8,427	6,214	2,721	3,122	27,429	29,251
-	-	-	-	-	135,461
-	-	318,126	316,771	318,126	316,771
323,476	272,476	-	-	1,717,611	1,624,172
-	-	401,439	396,689	401,439	396,689
70,210	67,811	-	-	100,211	97,218
589,883	529,095	1,095,200	1,077,129	4,576,979	4,603,866
3,033,336	2,425,812	-	-	8,380,214	9,168,978
-	-	2,219,773	2,621,211	2,219,773	2,621,211
126,689	196,899	-	-	627,560	681,466
80,496	62,021	211,081	125,079	840,492	588,081
4,380	248,390	9,102	503,516	45,781	2,261,597
-	-	-	63,540	850,554	1,180,247
3,244,901	2,933,122	2,439,956	3,313,346	12,964,374	16,501,580
3,834,784	3,462,217	3,535,156	4,390,475	17,541,353	21,105,446
164,302	724	341,423	13,852	1,717,329	92,098
404,285	438,104	473,065	520,012	929,837	1,014,748
568,587	438,828	814,488	533,864	2,647,166	1,106,846
3,206,726	3,134,495	-	-	20,960,192	19,988,317
370,635	378,804	-	63,540	2,430,146	3,249,395
819,692	631,659	(682,238)	(1,182,973)	11,697,878	10,250,954
4,397,053	4,144,958	(682,238)	(1,119,433)	35,088,216	33,488,666

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION

YEARS ENDED DECEMBER 31, 2022 AND 2021

	ENTERPRISE	
	ELECTRIC	
	2022	2021
Operating revenues:		
Sale of electricity:		
Residential	\$ 4,341,840	4,118,148
Commercial	7,489,019	6,863,157
Security lights	29,045	30,335
Sales for resale	4,788,408	12,172,842
Sale of water	-	-
Cable TV fees	-	-
Internet fees	-	-
Telephone service	-	-
Service provided to City of Algona	180,750	169,464
Attachment H revenue	606,715	470,491
Joint lease payments	86,575	89,278
Lease revenue	4,145	-
Miscellaneous and merchandising	984,271	591,145
Return on investment in joint ventures	14,956	8,377
Total operating revenues	<u>18,525,724</u>	<u>24,513,237</u>
Operating expenses:		
Generation and power purchased	12,091,128	15,459,191
Transmission-distribution maintenance	862,793	881,052
Customer accounts	174,730	156,234
Sales	70,376	48,738
General and other	736,854	398,362
Administration and general	922,310	696,427
Rebates and other expenses	91,956	137,674
Merchandise, jobbing and construction	69,210	92,630
Property tax and insurance	224,086	188,865
Depreciation	1,950,614	1,919,460
Payment in lieu of taxes	410,000	400,000
Source of supply	-	-
Maintenance of mains, services and meters	-	-
Headend programming	-	-
Maintenance of distribution and equipment	-	-
City franchise fee	-	-
Total operating expenses	<u>17,604,057</u>	<u>20,378,633</u>
Income from operations	<u>\$ 921,667</u>	<u>4,134,604</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2022	2021	2022	2021	2022	2021
-	-	-	-	4,341,840	4,118,148
				7,489,019	6,863,157
				29,045	30,335
-	-	-	-	4,788,408	12,172,842
1,856,112	1,753,548	-	-	1,856,112	1,753,548
-	-	1,257,945	1,300,511	1,257,945	1,300,511
-	-	1,813,501	1,687,051	1,813,501	1,687,051
-	-	597,697	637,439	597,697	637,439
15,065	20,578			195,815	190,042
-	-	-	-	606,715	470,491
-	-	-	-	86,575	89,278
33,933	-	45,996	-	84,074	-
14,112	93,910	44,177	114,234	1,042,560	799,289
-	-	-	-	14,956	8,377
1,919,222	1,868,036	3,759,316	3,739,235	24,204,262	30,120,508
-	-	-	-	12,091,128	15,459,191
-	-	-	-	862,793	881,052
92,897	81,572	99,240	96,213	366,867	334,019
33,331	27,960	115,627	130,342	219,334	207,040
(5,921)	46,228	(1,633)	136,109	729,300	580,699
317,598	245,982	532,964	413,031	1,772,872	1,355,440
-	-	-	-	91,956	137,674
10,536	25,867	14,757	7,894	94,503	126,391
46,058	41,045	48,588	47,210	318,732	277,120
400,206	366,146	559,388	578,840	2,910,208	2,864,446
45,000	45,000	-	-	455,000	445,000
308,826	271,240	-	-	308,826	271,240
340,475	323,664	-	-	340,475	323,664
-	-	1,611,815	1,686,617	1,611,815	1,686,617
-	-	285,721	296,462	285,721	296,462
-	-	62,895	64,740	62,895	64,740
1,589,006	1,474,704	3,329,362	3,457,458	22,522,425	25,310,795
330,216	393,332	429,954	281,777	1,681,837	4,809,713

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION - continued**

YEARS ENDED DECEMBER 31, 2022 AND 2021

	ENTERPRISE ELECTRIC	
	2022	2021
Nonoperating income (expense):		
Interest income	\$ 118,563	98,483
Interest expense	(216,650)	(262,157)
Grant proceeds	-	241,152
Miscellaneous	1,292	(29,478)
Gain (loss) on disposition of assets	85,388	40,401
Net nonoperating income (expense)	<u>(11,407)</u>	<u>88,401</u>
Change in net position	910,260	4,223,005
Net position, beginning, as restated	<u>30,463,141</u>	<u>26,240,136</u>
Net position, ending	<u><u>\$ 31,373,401</u></u>	<u><u>30,463,141</u></u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2022	2021	2022	2021	2022	2021
24,216	999	28,371	953	171,150	100,435
(108,880)	(86,537)	(34,193)	(67,330)	(359,723)	(416,024)
-	-	-	-	-	241,152
7,819	7,761	412	1,239	9,523	(20,478)
(1,276)	-	12,651	13,891	96,763	54,292
(78,121)	(77,777)	7,241	(51,247)	(82,287)	(40,623)
252,095	315,555	437,195	230,530	1,599,550	4,769,090
4,144,958	3,829,403	(1,119,433)	(1,349,963)	33,488,666	28,719,576
4,397,053	4,144,958	(682,238)	(1,119,433)	35,088,216	33,488,666

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

**PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2022 AND 2021

	ENTERPRISE	
	ELECTRIC	
	2022	2021
Cash flows from operating activities:		
Cash receipts from customers	\$ 16,976,555	23,067,196
Other operating cash receipts	1,595,131	1,021,735
Cash payments to suppliers	(14,125,257)	(16,443,732)
Cash payments to employees	(1,877,281)	(1,525,331)
Cash receipts/(payments) for interfund services	172,415	169,193
Net cash provided by operating activities	2,741,563	6,289,061
Cash flows from capital and related financing activities:		
Grant proceeds	-	241,152
Proceeds from sale of capital assets	493,521	53,678
Acquisition and construction of capital assets	(1,921,440)	(1,257,850)
Repayment of long term debt	(1,288,354)	(2,041,840)
Cash payments for interest	(220,284)	(265,644)
Net cash used by capital and related financing activities	(2,936,557)	(3,270,504)
Cash flows from investing activities:		
Interest received during the year	108,928	104,936
Collections/(payments) on interfund loan receivables	396,688	290,227
(Issuance)/proceeds of new interfund loan	-	(376,650)
Proceeds on issuance of new long-term debt	-	-
Collections on economic development loans	158,054	602,797
Issuance of new economic development loans	(156,250)	(225,000)
Miscellaneous cash received/(paid)	1,292	(29,478)
Net cash provided by investing activities	\$ 508,712	366,832

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2022	2021	2022	2021	2022	2021
1,851,862	1,790,432	3,542,614	3,626,550	22,371,031	28,484,178
48,045	93,910	90,173	100,343	1,733,349	1,215,988
(662,121)	(666,489)	(2,046,891)	(2,111,910)	(16,834,269)	(19,222,131)
(476,512)	(382,930)	(655,710)	(623,973)	(3,009,503)	(2,532,234)
(85,840)	(79,915)	(86,575)	(89,278)	-	-
675,434	755,008	843,611	901,732	4,260,608	7,945,801
-	-	-	-	-	241,152
1,057	-	30,205	34,875	524,783	88,553
(1,065,428)	(742,312)	(199,958)	(642,240)	(3,186,826)	(2,642,402)
(340,342)	(327,986)	-	(202,300)	(1,628,696)	(2,572,126)
(106,667)	(87,078)	(34,594)	(73,783)	(361,545)	(426,505)
(1,511,380)	(1,157,376)	(204,347)	(883,448)	(4,652,284)	(5,552,480)
22,054	999	25,821	953	156,803	106,888
-	-	(396,688)	(290,227)	-	-
-	-	-	376,650	-	-
931,000	-	-	-	931,000	-
-	-	-	-	158,054	602,797
-	-	-	-	(156,250)	(225,000)
7,819	7,761	412	1,240	9,523	(20,477)
960,873	8,760	(370,455)	88,616	1,099,130	464,208

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS - continued

YEARS ENDED DECEMBER 31, 2022 AND 2021

	ENTERPRISE ELECTRIC	
	2022	2021
Net increase (decrease) in cash and cash equivalents	\$ 313,718	3,385,389
Cash and cash equivalents-beginning of year	9,804,933	6,419,544
Cash and cash equivalents-end of year	10,118,651	9,804,933
Restricted funds	1,208,957	1,690,344
Unrestricted funds	8,909,694	8,114,589
	10,118,651	9,804,933
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	921,667	4,134,604
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,950,614	1,919,460
(Gain) loss from sale of assets	-	(40,401)
Change in accounts receivable	161,239	(141,855)
Change in unbilled usage	72,094	(64,980)
Change in prepaid expenses	(10,417)	(40,588)
Change in inventory	(104,364)	341,217
Change in joint venture	(14,956)	(7,877)
Change in accounts payable	(44,154)	26,680
Change in accrued taxes	11,025	(4,059)
Change in accrued wages and compensated absences	23,445	27,664
Change in other accrued expenses	(135,461)	41,167
Change in deferred revenue	-	-
Change in pension related deferred outflows	106,207	(39,961)
Change in OPEB liability	147,934	33,599
Change in net pension liability	(1,477,392)	271,198
Change in deferred inflows	1,134,082	(166,807)
Net cash provided by operating activities	\$ 2,741,563	6,289,061

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2022	2021	2022	2021	2022	2021
124,927	(393,608)	268,809	106,900	707,454	3,098,681
1,172,666	1,566,274	377,706	270,806	11,355,305	8,256,624
1,297,593	1,172,666	646,515	377,706	12,062,759	11,355,305
370,635	378,804	-	-	1,579,592	2,069,148
926,958	793,862	646,515	377,706	10,483,167	9,286,157
1,297,593	1,172,666	646,515	377,706	12,062,759	11,355,305
330,216	393,332	429,954	281,777	1,681,837	4,809,713
400,206	366,146	559,388	578,840	2,910,208	2,864,446
-	-	-	(13,891)	-	(54,292)
(12,958)	15,346	(127,884)	11,762	20,397	(114,747)
(6,357)	960	-	-	65,737	(64,020)
669	(11,465)	(685)	(11,023)	(10,433)	(63,076)
(6,890)	(440)	5,059	(1,988)	(106,195)	338,789
-	-	-	-	(14,956)	(7,877)
(4,735)	25,484	6,229	37,559	(42,660)	89,723
3,072	688	3,643	(8,505)	17,740	(11,876)
6,838	2,406	2,495	(5,333)	32,778	24,737
-	(54,098)	-	-	(135,461)	(12,931)
-	-	1,355	(10,213)	1,355	(10,213)
27,330	(23,477)	44,898	(26,102)	178,435	(89,540)
18,475	(594)	86,002	15,732	252,411	48,737
(244,010)	72,577	(494,414)	113,713	(2,215,816)	457,488
163,578	(31,857)	327,571	(60,596)	1,625,231	(259,260)
675,434	755,008	843,611	901,732	4,260,608	7,945,801

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Algona Municipal Utilities (the Utility) is a component unit of the City of Algona, Iowa whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City of Algona is a political subdivision of the State of Iowa located in Kossuth County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The Board of Trustees operates the Utility by the authority of Chapters 384 and 388 of the Code of Iowa. The Utility provides electric, water, cable television, internet, telephone and data services on a user charge basis to the general public and other governmental units within Kossuth County, Iowa.

The Utility's financial statements are prepared in conformity with U.S. generally accepted accounting principles applicable to proprietary funds of governmental entities as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, the Utility has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria.

The Utility is not presented as a component unit of the City of Algona's financial statements. The Utility is a legally separate entity from the City, but it is financially accountable to the City.

Basis of Presentation

The accounts of the Utility are organized as enterprise funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted by providing a separate set of accounts for assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. The existing funds are as follows:

- The Electric Fund is used to account for the operation and maintenance of the Utility's electric system.
- The Water Fund is used to account for the operation and maintenance of the Utility's water system.
- The Communications Fund is used to account for the cable television, internet, telephone, and data services systems of the Utility.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Utility's policy to use restricted resources first, and then unrestricted resources as they are needed.

Shared Utility Plants

Neal 4 Generating System – The Utility is one of fourteen owners of Unit 4 George Neal Generating Station which is managed by MidAmerican Energy. The Utility owns a 2.937% undivided ownership interest of the generating station for generating, purchasing, obtaining by exchange, or otherwise acquiring or transmitting electric power and energy. The Utility has recorded its share of the costs as capital assets and inventory in the Electric Utility Fund.

Lehigh-Webster Transmission System – The Utility is one of fifteen owners of Lehigh-Webster Transmission System which is managed by Algona Municipal Utilities. The Utility owns a 4.18% undivided ownership interest of the transmission system. The Utility has recorded its share of the costs as capital assets in the Electric Utility Fund. The Utility sold its ownership in Lehigh-Webster during 2022.

Trinity Wind, LLC – In October 2017, the Utility entered into an agreement to purchase the three 750KW wind turbine generators at a cost of \$1 from the six other owners of Iowa Distributed Wind Generation Project ("IDWGP"). Upon execution of the agreement, the Utility entered into a separate agreement with Trinity Wind, LLC to operate the wind farm at a fixed cost per kWh produced by the wind generating units. According to the agreement, the wind farm will remain in operation until 2027, at which point the Utility has a legal obligation to decommission the plant. Utilizing current cost estimates, the decommissioning reserve was \$403,873 and \$350,912 as of December 31, 2022 and 2021 respectively.

Budgetary Information

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. During the year, the budget was amended to

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capture higher purchased power costs. During the year ended December 31, 2022 disbursements did not exceed the amounts budgeted in the business-type activities function.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results could differ from those estimates.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents – The various funds of the Utility combine their cash and invested cash funds into several shared bank accounts at one financial institution. The Utility considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments are carried at cost which approximates market value.

Accounts Receivable and Allowance for Doubtful Accounts – The Utility uses the allowance method to account for uncollectible accounts receivable. Management uses its judgment based primarily on the length of time specific accounts have been outstanding in determining the estimated allowance for doubtful accounts and related write-offs. A 1.5% per month penalty is charged for accounts older than 30 days.

The balance of the allowance for doubtful accounts as of December 31, 2022 and 2021 were as follows:

	Electric	Water	Communications
December 31, 2022 and 2021	\$ 57,400	5,300	9,300

Inventories – Inventories are stated at the lower of cost or replacement value using first-in, first-out method. Cost is determined on a weighted average method. The electric utility fund inventory primarily includes fuel for the local plant and its joint ownership share of the coal and oil utilized at the Neal 4 Generation Station.

Capital Assets – Capital assets are carried at cost. Cost of labor, materials, supervision, and other costs incurred making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense. The Utility capitalizes interest costs incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is written off over the asset's estimated useful life. The Utility computes depreciation on buildings and equipment using the straight-line method over the estimated useful lives of the property.

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Estimated useful lives of the buildings range from twenty to fifty years, while the lives of the equipment are estimated to range from three to thirty years.

Provisions for depreciation of generating, transmission, and distribution plant are computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provisions for depreciation of general plant are computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

Leases – The Utility is a lessor for various assets and recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, the Utility initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgements include how the Utility determines the discount rate it uses to discount the expected lease receipts to present value, lease term and lease receipts. The Utility uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The Utility monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows in the Statement of Net Position consist of the

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unamortized portion of the net difference between projected and actual earnings on pension plan investments and leases.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the net position of the Iowa Public Employees’ Retirement System (IPERS) and additions to/deductions from IPERS’ net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Statement of Revenues and Expenses

Transactions deemed by management to be ongoing, major, or central to the production of Utility sales are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses. For most services, meters are read and bills are rendered on a cycle basis near midmonth. Revenues earned are recorded through the date meters are read each month. Additionally, for the last month of the year, revenues earned from utility usage delivered after meters are read thru the end of the month are estimated and recorded.

Net Position

Net position is reported in the following categories:

- Net Investment in Capital Assets – This category consists of capital assets net of accumulated depreciation and reduced by the outstanding balances for bonds, notes, and other borrowings attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This category results when constraints are placed on net position by external groups such as creditors, grantors, or laws or regulations of other governments or law through constitutional provisions or enabling legislation.
- Unrestricted – This category consists of all other net position not meeting the definition of “restricted” or “net investment in capital assets.”

NOTE 2 – CASH AND INVESTMENTS

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district.

The Utility has investments in the Iowa Public Agency Investment Trust which were valued at an amortized cost of \$4,582,838 and \$378,551 at December 31, 2022 and 2021, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940. The Utility’s investment in the Iowa Public Agency Investment Trust is unrated.

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The Utility uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

Interest rate risk – The Utility’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utility.

Custodial credit risk – For deposits, there is a risk that in the event of a bank failure, the Utility’s deposits may not be returned to it. The Utility’s deposits are covered by federal depository insurance up to the insured limits or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. However, the portion of deposits held by jointly-owned entities are not held in the name of the Utility and may be subject to additional risk.

NOTE 3 – CAPITAL ASSETS

The capital asset activity of the Electric Utility for the years ended December 31, 2022 and 2021 were as follows:

2022	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	363,767	-	-	363,767
Construction in progress	260,734	1,106,887	744,826	622,795
Total capital assets not being depreciated	624,501	1,106,887	744,826	986,562
Capital assets being depreciated:				
Buildings and improvements	3,012,636	29,370	-	3,042,006
Equipment and vehicles	2,662,000	287,155	394	2,948,761
Infrastructure	61,100,053	1,242,852	962,608	61,380,297
Total capital assets being depreciated	66,774,689	1,559,377	963,002	67,371,064
Less accumulated depreciation for:				
Buildings and improvements	1,534,613	80,396	-	1,615,009
Equipment and vehicles	1,691,586	382,774	6	2,074,354
Infrastructure	38,710,334	1,487,444	554,866	39,642,912
Total accumulated depreciation	41,936,532	1,950,614	554,872	43,332,275
Net capital assets being depreciated	24,838,157			24,038,789
Electric utility, net capital assets	25,462,658			25,025,351
2021	Beginning			Ending

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	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	369,722	-	5,955	363,767
Construction in progress	195,946	630,463	565,675	260,734
Total capital assets not being depreciated	565,668	630,463	571,630	624,501
Capital assets being depreciated:				
Buildings and improvements	2,998,024	14,612	-	3,012,636
Equipment and vehicles	2,501,724	211,988	51,712	2,662,000
Infrastructure	60,192,168	1,020,204	112,319	61,100,053
Total capital assets being depreciated	65,691,916	1,246,804	164,031	66,774,689
Less accumulated depreciation for:				
Buildings and improvements	1,455,683	78,930	-	1,534,613
Equipment and vehicles	1,563,563	178,990	50,967	1,691,586
Infrastructure	37,156,325	1,661,541	107,531	38,710,334
Total accumulated depreciation	40,175,571	1,919,460	158,498	41,936,532
Net capital assets being depreciated	25,516,345			24,838,157
Electric utility, net capital assets	26,082,013			25,462,658

The capital asset activity of the Water Utility for the years ended December 31, 2022 and 2021 were as follows:

2022	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	286,359	-	-	286,359
Construction in progress	-	949,509	804,970	144,539
Total capital assets not being depreciated	286,359	949,509	804,970	430,898
Capital assets being depreciated:				
Equipment and vehicles	438,549	-	-	438,549
Infrastructure	10,335,659	920,944	3,128	11,253,475
Total capital assets being depreciated	10,774,208	920,944	3,128	11,692,024
Less accumulated depreciation for:				
Equipment and vehicles	321,029	20,827	-	341,856
Infrastructure	4,642,045	379,379	795	5,020,629
Total accumulated depreciation	4,963,074	400,206	795	5,362,485
Net capital assets being depreciated	5,811,134			6,329,539
Water utility, net capital assets	6,097,493			6,760,437

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2021	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	286,359	-	-	286,359
Construction in progress	54,098	694,912	749,010	-
Total capital assets not being depreciated	340,457	126,864	734,105	286,359
Capital assets being depreciated:				
Equipment and vehicles	419,558	20,810	1,819	438,549
Infrastructure	9,560,059	775,600	-	10,335,659
Total capital assets being depreciated	9,979,617	796,410	1,819	10,774,208
Less accumulated depreciation for:				
Equipment and vehicles	301,857	20,991	1,819	321,029
Infrastructure	4,296,890	345,155	-	4,642,045
Total accumulated depreciation	4,598,747	366,146	1,819	4,963,074
Net capital assets being depreciated	5,380,870			5,811,134
Water utility, net capital assets	5,721,327			6,097,493

The capital asset activity of the Communications Utility for the years ended December 31, 2022 and 2021 were as follows:

2022	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	49,635	-	-	49,635
Construction in progress	176,958	100,288	277,246	-
Total capital assets not being depreciated	226,593	100,288	277,246	49,635
Capital assets being depreciated:				
Buildings and improvements	271,793	60,134	-	331,927
Equipment and vehicles	249,574	803	-	250,376
Infrastructure	6,901,034	315,979	221,398	6,995,618
Total capital assets being depreciated	7,422,401	376,916	221,398	7,577,921
Less accumulated depreciation for:				
Buildings and improvements	189,005	10,208	-	199,213
Equipment and vehicles	201,320	14,060	-	215,379
Infrastructure	4,796,614	535,120	203,844	5,127,892
Total accumulated depreciation	5,186,939	559,388	203,844	5,542,484
Net capital assets being depreciated	2,235,462			2,035,437
Communications utility, net capital assets	2,462,055			2,085,072

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2021	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	49,635	-	-	49,635
Construction in progress	-	176,958	-	176,958
Total capital assets not being depreciated	49,635	176,958	-	226,593
Capital assets being depreciated:				
Buildings and improvements	271,793	-	-	271,793
Equipment and vehicles	247,560	2,923	909	249,574
Infrastructure	6,537,429	476,269	112,664	6,901,034
Total capital assets being depreciated	7,056,782	479,192	113,573	7,422,401
Less accumulated depreciation for:				
Buildings and improvements	179,034	9,971	-	189,005
Equipment and vehicles	187,544	14,685	909	201,320
Infrastructure	4,334,111	554,184	91,681	4,796,614
Total accumulated depreciation	4,700,689	578,840	92,590	5,186,939
Net capital assets being depreciated	2,356,093			2,235,462
Communications utility, net capital assets	2,405,728			2,462,055

In accordance with the interfund resolution adopted by the Board of Trustees under Iowa Code Chapter 28E between the Electric Utility and the Communications Utility, the communications distribution system shall remain the sole property of the Electric Utility and the cost of improvements to the system will be incurred by the Electric Utility.

NOTE 4 – INTERFUND LOAN

Management authorized interfund loans from the Electric Fund to the Communications Fund in the amount of \$3,440,000 in November of 2015 dedicated to financing the construction of the Utility's broadband telecommunications network. All monies transferred shall be repaid to the originating account by December 1, 2030 with interest at a rate of 1.33% per annum. As of December 31, 2022 and 2021 the outstanding balance on the interfund loan was \$1,992,760 and \$2,266,565, respectively. In September 2018, management authorized an additional \$1,500,000 loan from the Electric Fund to the Communications Fund for future improvements to the telecommunications network. As of December 31, 2022 and 2021 the outstanding balance on the interfund loan was \$628,451 and \$751,335, respectively. All monies transferred shall be repaid to the originating account by December 1, 2027 with interest at a rate of 0.88% per annum.

Principal and interest payments required under these obligations as of December 31, 2022 are as follows:

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Year ending December 31,	Series 2015		Series 2018	
	Interest Rate: 1.33%		Interest Rate: 0.88%	
	Principal	Interest	Principal	Interest
2023	\$ 277,469	24,814	123,970	5,031
2024	281,121	21,163	125,053	3,947
2025	284,944	17,339	126,170	2,830
2026	288,757	13,526	127,285	1,715
2027	292,621	9,662	125,973	591
2028-2029	567,848	7,550	-	-
	<u>\$ 1,992,760</u>	<u>94,054</u>	<u>628,451</u>	<u>14,114</u>

Accrued interest as of December 31, 2022 and 2021 of \$2,721 and \$3,122, respectively, is reflected on the Statement of Net Position as Accrued Interest Receivable – Interfund Loan for the Electric Utility and as Accrued Interest Payable – Interfund Loan for the Communications Utility.

NOTE 5 – USDA ECONOMIC DEVELOPMENT LOAN FUND

In conjunction with the USDA (United States Rural Development), the Utility has established a revolving loan fund. The funding for the program came from two separate grants in the amounts of \$300,000 each from the USDA supplemented by \$120,000 of matching funds provided by the Utility. The Utility received a third grant in 2021 in the amount of \$200,960.

This program has made multiple loans to local charitable organizations/governmental organizations and businesses to assist in furthering economic development in the Algona area. As of December 31, 2022 and 2021 notes receivable under this program amounted to \$834,129 and \$835,933, respectively.

NOTE 6 – COMPENSATED ABSENCES

The Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death, or retirement. The Utility's approximate liability for earned vacation and sick leave payments payable to employees at December 31, 2022 and 2021 is as follows:

	Electric	Water	Communications
December 31, 2022:			
Vacation	\$ 106,775	14,653	28,548
Sick Leave	197,118	12,143	37,936
	<u>\$ 303,893</u>	<u>26,796</u>	<u>66,484</u>
December 31, 2021:			
Vacation	\$ 106,861	11,845	29,436
Sick Leave	176,444	9,128	34,808
	<u>\$ 283,305</u>	<u>20,973</u>	<u>64,244</u>

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NOTE 7 – LONG TERM LIABILITIES

Changes in long-term liabilities for the year ended December 31, 2022 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds Payable	10,793,150	931,000	1,626,325	10,097,825	1,717,611
Other long-term debt	1,958,931	-	380,606	1,578,325	100,211
Net Pension Liability	2,261,597	-	2,215,816	45,781	-
Total OPEB Liability	588,081	252,411	-	840,492	-
Total	15,601,759	1,183,411	4,222,747	12,562,423	1,817,822

Electric Utility

A summary of changes in the revenue bonds payable of the Electric Utility for the years ended December 31, 2022 and 2021 is as follows:

2022	Beginning Balance	Increases	Decreases	Ending Balance
Series 2011	\$ 880,000	-	880,000	\$ -
Series 2014	2,125,000	-	235,000	1,890,000
Series 2017B	4,999,000	-	225,000	4,774,000
	<u>\$ 8,004,000</u>	<u>-</u>	<u>1,340,000</u>	<u>\$ 6,664,000</u>

2021	Beginning Balance	Increases	Decreases	Ending Balance
Series 2011	\$ 1,960,000	-	1,045,000	\$ 880,000
Series 2014	2,350,000	-	220,000	2,125,000
Series 2017B	4,999,000	-	-	4,999,000
	<u>\$ 9,309,000</u>	<u>-</u>	<u>1,225,000</u>	<u>\$ 8,004,000</u>

The Series 2014 bonds were issued at a premium. This premium is being amortized over the life of the bonds. The unamortized premium as of December 31, 2022 and 2021 was \$77,013 and \$90,862, respectively, and are included in the outstanding revenue bonds payable balance on the Statement of Net Position.

In December 2017, the Utility issued \$4,999,000 in electric revenue refunding bonds with an interest rate of 2.56%. The Utility issued the bonds to advance refund \$5,175,000 of the outstanding series 2011 electric revenue bonds with interest rates that ranged from 3.50-4.00%. The Utility used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunding portion of the 2011 series bonds. As a result, that portion of the 2011 series bonds is considered to be defeased, and the Utility has removed the liability from its accounts.

The outstanding principal of the defeased bonds is \$4,999,000 and \$4,774,000 as of December 31, 2022 and 2021, respectively.

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The advance refunding reduced the total debt service payments over the next 13 years by nearly \$575,000. This resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$188,732.

A summary of the Electric Utility's annual principal and interest requirements to maturity is as follows:

Year ending December 31,	Series 2014		Series 2017B	
	Interest Rates: 2.00-4.00%		Interest Rate: 2.56%	
	Principal	Interest	Principal	Interest
2023	\$ 240,000	73,150	1,143,000	122,214
2024	250,000	64,750	1,174,000	92,954
2025	260,000	56,000	1,213,000	62,899
2026	270,000	45,600	1,244,000	31,846
2027	280,000	34,800	-	-
2028-2029	590,000	35,600	-	-
	<u>\$ 1,890,000</u>	<u>309,900</u>	<u>4,774,000</u>	<u>309,913</u>

Year ending December 31,	Total	
	Principal	Interest
2023	\$ 1,383,000	195,364
2024	1,424,000	157,704
2025	1,473,000	118,899
2026	1,514,000	77,446
2027	280,000	34,800
2028-2029	590,000	35,600
	<u>\$ 6,664,000</u>	<u>619,813</u>

The resolutions providing for the issuance of the Electric Utility's revenue bonds include the following provisions:

- The bonds will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- Sufficient monthly transfers shall be made to the Electric Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- A reserve fund shall be established and maintained at a level equal to or less than \$869,854 and \$1,369,854 as of December 31, 2022 and 2021, respectively.
- Sufficient rates are to be charged to generate net revenues adequate to pay the principal and interest on the bonds and to create/maintain the reserves required by the bonds. The net revenues are also to be equal to or greater than 125% of the principal and interest requirements of the next calendar year.

During the years ended December 31, 2022 and 2021, the Electric Utility was in compliance with these provisions.

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Water Utility

A summary of changes in the revenue bonds payable of the Water Utility for the years ended December 31, 2022 and 2021 is as follows:

2022	Beginning Balance	Increases	Decreases	Ending Balance
Series 2010	\$ 450,000	-	105,000	\$ 345,000
Series 2015	925,000	-	90,000	835,000
Series 2019	1,295,000	-	75,000	1,220,000
Series 2022	-	931,000	-	931,000
	<u>\$ 2,670,000</u>	<u>931,000</u>	<u>270,000</u>	<u>\$ 3,331,000</u>

2021	Beginning Balance	Increases	Decreases	Ending Balance
Series 2010	\$ 550,000	-	100,000	\$ 450,000
Series 2015	1,015,000	-	90,000	925,000
Series 2019	1,365,000	-	70,000	1,295,000
	<u>\$ 2,930,000</u>	<u>-</u>	<u>260,000</u>	<u>\$ 2,670,000</u>

The unamortized premium for the Series 2015 and 2019 bonds for the years ended December 31, 2022 and 2021 was \$25,812 and \$28,288, respectively and are included in the outstanding revenue bonds payable balance on the Statement of Net Position.

A summary of the Water Utility's annual principal and interest requirements to maturity is as follows:

Year ending December 31,	Series 2010		Series 2015	
	Interest Rates: 2.25-3.90%		Interest Rates: 1.75-3.00%	
	Principal	Interest	Principal	Interest
2023	\$ 110,000	13,120	95,000	22,135
2024	115,000	9,050	95,000	20,093
2025	120,000	4,680	100,000	18,050
2026	-	-	100,000	15,700
2027	-	-	105,000	13,350
2028-2032	-	-	340,000	20,550
2033-2037	-	-	-	-
	<u>\$ 345,000</u>	<u>26,850</u>	<u>835,000</u>	<u>109,878</u>

Year ending December 31,	Series 2019		Series 2022		Total	
	Interest Rates:		Interest Rates:			
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 70,000	32,348	46,000	33,516	321,000	101,119
2024	80,000	30,948	50,000	31,860	340,000	91,951
2025	75,000	29,348	50,000	30,060	345,000	82,138
2026	85,000	27,773	55,000	28,260	240,000	71,733
2027	85,000	25,988	55,000	26,280	245,000	65,618

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2028-2032	635,000	92,775	305,000	100,440	1,280,000	213,765
2033-2037	190,000	5,700	370,000	40,860	560,000	46,560
	<u>\$ 1,220,000</u>	<u>244,878</u>	<u>931,000</u>	<u>291,276</u>	<u>3,331,000</u>	<u>672,882</u>

The resolutions providing for the issuance of the Water Utility's revenue bonds include the following provisions:

- Sufficient monthly transfers shall be made to the Water Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- A reserve fund shall be established and maintained at a level equal to or less than \$335,458. The reserve was fully funded at December 31, 2022 and 2021.
- Sufficient rates are to be charged to generate net revenues adequate to pay the principal and interest on the bonds and to create/maintain the reserves required by the bonds. The net revenues are also to be equal to or greater than 125% of the principal and interest requirements of the next calendar year.

During the years ended December 31, 2022 and 2021, the Water Utility was in compliance with these provisions.

Communications Utility

A summary of changes in the revenue bonds payable of the Communications Utility for the years ended December 31, 2022 and 2021 is as follows:

2022	Beginning Balance	Increases	Decreases	Ending Balance
Series 2015	\$ -	-	-	-
	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
2021	Beginning Balance	Increases	Decreases	Ending Balance
Series 2015	\$ 202,300	-	202,300	-
	<u>\$ 202,300</u>	<u>-</u>	<u>202,300</u>	<u>\$ -</u>

The resolutions providing for the issuance of the Communications Utility's revenue bonds include the following provisions:

- Sufficient monthly transfers shall be made to the Communications Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- Sufficient rates are to be charged to generate net revenues adequate to pay the principal and interest on the bonds and to create/maintain the reserves required by the bonds. The net revenues are also to be equal to or greater than 110% of the principal and interest requirements of the next calendar year.

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During the years ended December 31, 2022 and 2021, the Communications Utility was in compliance with these provisions.

NOTE 8 – ENERGY MANAGEMENT IMPROVEMENT LOAN

The Utility has financed certain energy efficiency and renewable energy improvement projects through a loan agreement with the Iowa Association of Municipal Utilities (IAMU). In October 2013, the Utility executed an agreement with IAMU to borrow \$849,874 to make distribution system improvements that reduce line losses and facilitate the implementation of smart grid measures. This note is split 55% and 45% between the Water and Electric Utilities, respectively. \$29,407 and \$28,826 in principal was paid on this note by the Electric Utility for the years ended December 31, 2022 and 2021, respectively. \$35,942 and \$35,231 in principal was paid on this note by the Water Utility for the years ended December 31, 2022 and 2021, respectively.

A summary of the annual principal and interest requirements to maturity is as follows:

Year ending December 31,	Water Utility		Electric Utility		Total	
	Interest Rate: 2.00%		Interest Rate: 2.00%			
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 36,668	2,932	30,001	2,399	66,669	5,331
2024	37,408	2,192	30,606	1,794	68,014	3,986
2025	38,163	1,437	31,224	1,176	69,387	2,613
2026	38,933	667	31,855	546	70,788	1,213
2027	12,185	48	9,970	38	22,155	86
	<u>\$ 163,357</u>	<u>7,276</u>	<u>133,656</u>	<u>5,953</u>	<u>297,013</u>	<u>13,229</u>

NOTE 9 – WELLFIELD PROPERTY LOAN

On August 13, 2018, the Utility purchased property located near the Utility's Power Plant for well protection and future well improvements.

The purchase price of the property was \$297,000 that required a down payment of \$125,000. The noninterest bearing note requires five annual payments in the amount of \$34,400 due and payable on the 1st day of July each year. The discount is based on an imputed interest rate of 5.25%. The balance of the note at December 31, 2022 and 2021 was \$33,542 and \$65,411 respectively. Annual principal and amortized discount requirements to maturity are as follows:

Year ending December 31,			Unamortized	Face Value of
	Principal		Discount	the Note
2023	\$	33,542	858	34,400
	\$	33,542	858	34,400

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NOTE 10 – LEASES

The Electric Utility entered into a lease with Mediacom for the use of an electrical pole. The lease expires in June 2032 and requires annual payments of \$6,552. AMU recognized lease revenue of \$6,552 during the year and an outstanding lease receivable balance of \$52,487.

The Electric Utility annual lease income is estimated with an incremental borrowing rate of 4.25% as of December 31, 2022. The annual principal and interest to be received on this lease agreement are as follows:

Year Ended December 31,	Principal	Interest	Total
2023	4,321	2,231	6,552
2024	4,505	2,047	6,552
2025	4,696	1,856	6,552
2026	4,896	1,656	6,552
2027	5,104	1,448	6,552
Thereafter	28,965	3,795	32,760
Total	52,487	13,033	65,520

The Water Utility leases space to third parties on its water towers for the purpose of operating telecommunication antennas. The leases expire in August 2031 and September 2032 and require monthly payments ranging from \$2,602 to \$2,862 and \$732 to \$805, respectively. The Water Utility also leases the use of its water tower building and water tower generator to a third party. The leases expire in August 2031 and require monthly payments of \$732 to \$805 and \$300, respectively. AMU recognized lease revenue of \$33,933 during the year and an outstanding lease receivable balance of \$404,285.

The Water Utility annual lease income is estimated with an incremental borrowing rate of 4.25% as of December 31, 2022. The annual principal and interest to be received on these lease agreements are as follows:

Year Ended December 31,	Principal	Interest	Total
2023	35,899	16,488	52,387
2024	37,447	14,940	52,387
2025	39,078	13,309	52,387
2026	42,112	11,609	53,721
2027	46,896	9,711	56,607
Thereafter	202,853	17,591	220,444
Total	404,285	83,648	487,933

The Communications Utility leases space to third parties on its towers for the purpose of operating telecommunication antennas. The leases expire in September 2031 and June 2032 and require monthly payments of \$1,335 to \$1,468 and \$1,048 to \$1,153, respectively. The Communications Utility leases the use of its generator to a third party. The lease expires in September 2031 and requires monthly payments of \$300. The Utility also leases fiber to third parties. One lease expires

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in December 2024 and requires monthly payments of \$1,894. The second lease expires in May 2040 and requires monthly payments ranging from \$1,150 to \$1,257. AMU recognized lease revenue of \$45,996 during the year and an outstanding lease receivable balance of \$473,065.

The Communications Utility annual lease income is estimated with an incremental borrowing rate of 4.25% as of December 31, 2022. The annual principal and interest to be received on these lease agreements are as follows:

Year Ended December 31,	Principal	Interest	Total
2023	49,570	19,147	68,717
2024	51,719	16,999	68,717
2025	31,033	15,203	46,236
2026	32,958	13,851	46,809
2027	36,252	12,387	48,639
Thereafter	271,534	53,242	324,776
Total	473,065	130,829	603,894

NOTE 11 – PENSION AND RETIREMENT BENEFITS

Plan Description – IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated

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differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

For the year ended December 31, 2022 and December 31, 2021, pursuant to the required rate, regular members contributed 6.29% of covered payroll and the Utility contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Utility's contributions to IPERS for the years ended December 31, 2022 and 2021 were \$262,675 and \$250,198, respectively.

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions – At December 31, 2022 and 2021, the Utility reported a liability of \$2,261,597 and \$45,311, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2021, the Utility's proportion was 0.032335% percent, which was a decrease of 0.000086% from its proportion measured as of June 30, 2020.

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For the years ended December 31, 2022 and 2021, the Utility recognized pension expense of \$412,149 and \$358,884, respectively. The Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2022	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 34,833	34,974
Changes of assumptions	29,944	-
Net difference between projected and actual earnings on IPERS investments	-	1,658,699
Changes in proportion and differences between Utility contributions and the Utility's proportionate share of contributions	96,585	23,656
Utility contributions subsequent to the measurement date	389,438	-
	\$ 550,800	1,717,329
2021	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,498	53,606
Changes of assumptions	116,087	-
Net difference between projected and actual earnings on IPERS investments	127,137	-
Changes in proportion and differences between Utility contributions and the Utility's proportionate share of contributions	128,751	38,492
Utility contributions subsequent to the measurement date	354,762	-
	\$ 729,235	92,098

Deferred outflows of resources related to pensions of \$389,438 represents the amount the Utility contributed subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Deferred outflows of resources related to pensions of \$244,463 were recognized as a reduction of the net pension liability in the year ending December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31,	2022 Amounts	2021 Amounts
2022	\$ -	43,832
2023	(386,592)	62,682
2024	(377,781)	71,487
2025	(352,227)	97,119
2026	(441,895)	7,255
2027	(1,473)	-
	\$ (1,559,967)	282,375

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There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an economic experience study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2020 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	4.43 %
International equity	17.5	5.15
Global smart beta equity	6.0	5.10
Core plus fixed income	26.0	0.29
Public credit	4.0	2.08
Cash	1.0	(0.25)
Private equity	1.0	9.51
Private real assets	7.5	4.63
Private credit	3.0	2.87
	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current

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active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
2022			
Utility's proportionate share of the net pension liability	\$ 1,604,415	45,780	(1,261,280)
2021			
Utility's proportionate share of the net pension liability	\$ 3,771,022	2,261,597	995,967

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS – At December 31, 2022 and 2021, the Utility reported payables to IPERS of \$33,987 and \$32,196, respectively, for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description – The Utility administers a single-employer benefit plan which provides medical and dental benefits for retirees and eligible dependents. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by the Utility and are eligible to participate in the group health plan are eligible to continue the benefits upon retirement. Retirees under age 65 pay the same premium for the benefits as active employees, which results in an implicit rate subsidy and an OPEB liability. Retirees age 62 with 20 or more years of service are eligible for health insurance covered by the Utility on a sliding scale up to four years of coverage.

Retired participants must be age 55 or older at retirement. At December 31, 2022, there were 34 active and no retired members covered by the benefit terms. At December 31, 2021, there were 34 active and 2 retired members covered by the benefit terms.

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Total OPEB Liability – The Utility’s total OPEB liability as of December 31, 2022 of \$840,492 was measured as of December 31, 2022 and was determined by an actuarial valuation as of that date. The Utility’s total OPEB liability as of December 31, 2021 of \$588,081 was measured as of December 31, 2021 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions – The total OPEB liability in the December 31, 2022 and 2021 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement.

Rate of inflation	
(effective December 31, 2021)	2.60% per annum.
Rates of salary increase	
(effective July 1, 2019)	3.25% per annum, including inflation.
Discount rate	
(effective January 1, 2022)	2.25% compounded annually, including inflation.
Discount rate	
(effective January 1, 2021)	2.12% compounded annually, including inflation.
Healthcare cost trend rate	
(effective December 31, 2022)	7.50% for 2022, decreasing by 0.50% annually.

Discount Rate – The discount rate used to measure the total OPEB liability at December 31, 2022 and 2021 was 2.25% and 2.12%, respectively, which reflects the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date.

The actuarial assumptions used in the December 31, 2022 and 2021 valuation were based on the results of an actuarial experience study with dates corresponding to those listed above.

Changes in the Total OPEB Liability

	2022	2021
Total OPEB liability, beginning of year,	\$ 588,081	539,344
Changes for the year:		
Service cost	35,351	29,142
Interest	13,217	18,140
Changes in assumptions	24,709	35,285
Differences between expected and actual experience	179,134	(9,545)
Benefit payments	-	(24,285)
Net change	252,411	48,737
Total OPEB liability, end of year	\$ 840,492	588,081

Changes in assumptions reflects a change in the discount rate from 2.12% for the year ended December 31, 2021 to 2.25% for the year ended December 31, 2022.

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Sensitivity of the Utility's Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the Utility, as well as what the Utility's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (1.25%) or 1% higher (3.25%) than the current discount rate.

	1% Decrease (1.25%)	Discount Rate (2.25%)	1% Increase (3.25%)
2022			
Total OPEB liability	\$ 890,000	840,492	793,109
2021	1% Decrease (1.12%)	Discount Rate (2.12%)	1% Increase (3.12%)
Total OPEB liability	\$ 620,179	588,081	557,045

Sensitivity of the Utility's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the Utility, as well as what the Utility's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (6.50%) or 1% higher (8.50%) than the current healthcare cost trend rates.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
2022			
Total OPEB liability	\$ 769,883	840,492	932,115
2021	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Total OPEB liability	\$ 535,884	588,081	648,558

For the year ended December 31, 2022 and 2021, the Utility recognized an increase in OPEB expense of \$179,389 and \$63,661, respectively.

NOTE 13 – PAYMENTS TO THE CITY

By resolution of the Board of Trustees, the Utility may make annual payments to the City of Algona. For the years ended December 31, 2022 and 2021, payments to the City of Algona by utility were as follows:

	Year ending December 31,	
	2022	2021
Electric	\$ 410,000	400,000
Water	45,000	45,000
Communications	62,895	64,740
	<u>\$ 517,895</u>	<u>509,740</u>

On July 25, 2018, the Board of Trustees approved a new agreement with the City of Algona as it pertains to payments made from the Communications Utility. The new agreement now provides for a 5% franchise fee on Cable TV gross revenues, less wholesale headend service revenue, tower

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rent and uncollectible accounts. The franchise fee will be paid monthly and will be retroactive to January 1, 2018 and is payable each month by the last day of the following month. For the years ended December 31, 2022 and 2021, payments made to the City of Algona under this agreement were \$62,895 and \$64,740, respectively.

The Utility and the City of Algona made changes to the Agreement for City Utility Service and Transfer of Funds. In the past, the City of Algona has paid for all utility and communication services, other than long distance telephone, at the time of the Annual City Transfer. Beginning in 2020, through mutual consent, the new agreement requires the City of Algona to pay the Utility for all services on a monthly basis.

NOTE 14 – RESTRICTED NET POSITION

As of December 31, 2022 and 2021, restricted net position consisted of the following:

2022	Electric	Water	Comm.	Total
Bond sinking funds	\$ 131,530	35,177	-	\$ 166,707
Bond reserve funds	869,854	335,458	-	1,205,312
Revolving loan funds	198,371	-	-	198,371
Deferred compensation funds	850,554	-	-	850,554
Other funds	9,202	-	-	9,202
	<u>\$ 2,059,511</u>	<u>370,635</u>	<u>-</u>	<u>\$ 2,430,146</u>

2021	Electric	Water	Comm.	Total
Bond sinking funds	\$ 131,582	28,714	-	\$ 160,296
Bond reserve funds	1,369,854	350,090	-	1,719,944
Revolving loan funds	181,330	-	-	181,330
Deferred compensation funds	1,116,707	-	63,540	1,180,247
Other funds	7,578	-	-	7,578
	<u>\$ 2,807,051</u>	<u>378,804</u>	<u>63,540</u>	<u>\$ 3,249,395</u>

The bond funds are restricted as described in Note 2. The deferred compensation funds are maintained in a 457(b) plan.

NOTE 15 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 16 - JOINT VENTURES

The Utility has a 15% ownership interest in the Iowa Public Power Agency (IPPA). IPPA was formed under Iowa Code Chapter 28E for the purpose of enabling smaller municipal utilities to own

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an interest in electric transmission lines. The Utility's total equity position at December 31, 2022 and 2021 was \$159,998 and \$145,042, respectively. These amounts are classified as Investment in Joint Venture on the Statement of Net Position. This funding was to assist the IPPA to purchase a \$3.5 million share in a transmission line project, in partnership with MidAmerican Energy. Audited statements for the IPPA are available upon request at the Utility's business office.

Condensed financial information for the IPPA as of December 31, 2022 and 2021 is as follows:

	Year ended December 31,	
	2022	2021
Total assets	\$ 2,829,856	2,937,197
Total liabilities	\$ 1,698,689	1,889,077
Total net position	1,131,167	1,048,120
	\$ 2,829,856	2,937,197
Total revenues	\$ 594,512	623,023
Total expenses	161,467	175,053
Net income	\$ 433,045	447,970

NOTE 17 – JOINT LEASE AGREEMENT

The Board of Trustees has adopted and approved an interfund resolution under Iowa Code Chapter 28E between the Electric Utility and the Communication Utility to finance and install a communications distribution system for the use and support of the electronic functions of the electric utility system. This communication distribution system is the sole property of the Electric Utility. Through the joint use agreement, the Communications Utility is granted the right to use the fiber and coaxial networks, HDT and voice ports and the network operations control building in varying percentages as specified in the agreement. Portions of this system and the office facilities maintained by the Electric utility are leased under a forty-year operating lease, requiring annual payments.

The joint use agreement requires monthly lease payments which are reviewed and updated annually. For the years ended December 31, 2022 and 2021, the monthly lease payments were \$7,215 and \$7,440, respectively. For the year ended December 31, 2023, the monthly lease payments were approved to be \$7,022. The future minimum lease payments at the current rate are as follows:

Year ending December 31,	
2023	\$ 84,270
2024	84,270
2025	84,270
2026	84,270
2027	84,270
2028-2032	421,350
2033-2037	421,350

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

2038-2042	421,350
2043-2045	252,810
	<u>\$ 1,938,210</u>

NOTE 18 – DEFICIT NET POSITION

The Communications Fund had a deficit balance of \$682,238 and \$1,119,433 as of December 31, 2022 and 2021, respectively.

NOTE 19 – CONTRACTS AND COMMITMENTS

The Utility entered into a contractual agreement with the North Iowa Municipal Electric Cooperative Association (NIMECA) in 2009. NIMECA is a cooperative consisting of 12-member municipalities that consolidates the electric resources of its members and serves as a joint power supply.

NOTE 20 – CONTINGENT LIABILITY

The Utility operates a partially self-funded health insurance program for its employees. The insurance policies provided by the Utility have deductibles of \$5,000 for individual and \$10,000 for family coverage for each calendar year. Under the various program options, employees are only required to pay a maximum of \$2,700/\$5,400 or \$2,800/\$5,600 for single/family coverage towards these deductibles, with the Utility covering the remainder. Thus, the Utility is liable for the remainder of each employee. As of December 31, 2022 and 2021, the unrecognized amount of this total represents a contingent liability to the Utility in the amount of \$123,829 and \$107,200 respectively.

NOTE 21 – ACCOUNTING CHANGE

Governmental Accounting Standards Board Statement No. 87, *Leases*, was implemented during the year. The new requirements require the reporting of certain lease assets and liabilities, which were previously not reported. The result of these changes had no effect on the beginning net position.

	Lease Receivables	Lease Related Deferred Inflows of Resources
Balances December 31, 2021, as previously reported:	\$ -	-
Change to implement GASB No. 87	1,014,748	1,014,748
Balances December 31, 2021, as restated:	<u>\$ 1,014,748</u>	<u>1,014,748</u>

NOTE 22 – SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through April 26, 2023, the date the financial statements were available to be issued.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Algona Municipal Utilities entered into a contract with Industrial Process Technology for improvements to the water treatment plant in the amount of \$256,833. The Utility has made payments totaling \$210,460 in 2023 and the project has been completed as of the date of this report.

NOTE 23 – PROSPECTIVE ACCOUNTING PRONOUNCEMENT

The Governmental Accounting Standards Board has issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement will be implemented for the year ending December 31, 2024. The revised requirements of this standard will require reporting certain assets and liabilities for the right-to-use another party's information technology software alone or in combination with tangible capital assets that are not currently reported.

Required Supplementary Information

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS
BUDGET AND ACTUAL**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2022

	Proprietary Funds Actual	Budgeted Amounts Original	Budgeted Amounts Amended	Final to Net Variance
Receipts				
Charges for service	\$ 24,301,025	20,982,403	24,251,439	49,586
Miscellaneous	180,673	140,795	136,240	44,433
	<u>24,481,698</u>	<u>21,123,198</u>	<u>24,387,679</u>	<u>94,019</u>
Disbursements				
Program				
Business type activities	22,882,148	20,629,748	24,358,469	(1,476,321)
	<u>22,882,148</u>	<u>20,629,748</u>	<u>24,358,469</u>	<u>(1,476,321)</u>
Change in net assets	1,599,550	493,450	29,210	
Balance beginning of year	<u>33,488,666</u>	<u>34,079,723</u>	<u>33,488,672</u>	
Balance end of year	<u>35,088,216</u>	<u>34,573,173</u>	<u>33,517,882</u>	

See accompanying independent auditor's report.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

YEAR ENDED DECEMBER 31, 2022

In accordance with the Code of Iowa, the Utility annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

During the year, the budget was amended to capture higher costs incurred for purchased power. During the year ended December 31, 2022 disbursements did not exceed the amounts budgeted.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA
SCHEDULE OF THE UTILITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST EIGHT YEARS*
REQUIRED SUPPLEMENTARY INFORMATION**

	2022	2021	2020	2019	2018	2017	2016	2015
Utility's proportion of the net pension liability	0.032335%	0.032421%	0.030948%	0.029415%	0.030751%	0.030828%	0.031978%	0.032151%
Utility's proportionate share of the net pension liability	45,331	2,261,597	1,804,109	1,861,439	2,030,098	1,940,131	1,579,847	1,275,084
Utility's covered payroll	2,650,403	2,589,650	2,517,903	2,267,875	2,196,309	2,207,861	2,286,360	2,059,729
Utility's proportionate share of the net pension liability as a percentage of its covered payroll	1.71%	87.33%	71.65%	82.08%	92.43%	87.87%	69.10%	61.91%
Plan fiduciary net position as a percentage of the total pension liability	100.81%	82.90%	85.45%	83.62%	82.21%	81.82%	85.19%	87.16%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceeding fiscal year.

See accompanying independent auditor's report.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

SCHEDULE OF UTILITY CONTRIBUTIONS

FOR THE LAST 10 YEARS

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Statutorily required contribution	\$ 262,675	\$ 250,198	\$ 244,463	\$ 237,690
Contributions in relation to the statutorily required contribution	<u>(262,675)</u>	<u>(250,198)</u>	<u>(244,463)</u>	<u>(237,690)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 2,782,574	\$ 2,650,403	\$ 2,589,650	\$ 2,517,903
Contributions as a percentage of covered-employee payroll	9.44%	9.44%	9.44%	9.44%

See accompanying independent auditor's report.

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$ 208,467	\$ 196,130	\$ 197,162	\$ 204,171	\$ 183,934	\$ 184,815
<u>(208,467)</u>	<u>(196,130)</u>	<u>(197,162)</u>	<u>(204,171)</u>	<u>(183,934)</u>	<u>(184,815)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,267,875	\$ 2,196,309	\$ 2,207,861	\$ 2,286,365	\$ 2,059,729	\$ 2,099,588
9.19%	8.93%	8.93%	8.93%	8.93%	8.80%

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

DECEMBER 31, 2022

Changes of Benefit Terms

There are no significant changes in benefit terms.

Changes of Assumptions

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

**SCHEDULE OF CHANGES IN THE UTILITY'S
TOTAL OPEB LIABILITY, RELATED RATIOS, AND NOTES**

FOR THE PAST THREE YEARS

REQUIRED SUPPLEMENTARY INFORMATION

	2022	2021	2020
Service cost	\$ 35,351	29,142	26,782
Interest	13,217	18,140	22,883
Differences between expected and actual experience	179,134	(9,545)	(61,266)
Changes in assumptions	24,709	35,285	20,963
Benefit payments	-	(24,285)	-
Net change in total OPEB liability	252,411	48,737	9,362
Total OPEB liability, beginning of year	588,081	539,344	529,982
Total OPEB liability, end of year	\$ 840,492	588,081	539,344
Covered payroll	\$ 2,661,797	2,544,464	2,473,453
Total OPEB liability as a percentage of covered payroll	31.6%	23.1%	21.8%

Notes to Schedule of Changes in the County's Total OPEB Liability and Related Ratios

Changes in Benefit Terms

There were no significant changes in benefit terms.

Changes in Assumptions

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

Year ended December 31, 2021	4.31%
Year ended December 31, 2021	2.25%
Year ended December 31, 2020	2.12%

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

ALGONA MUNICIPAL UTILITIES

Schedule 1

ELECTRIC DEPARTMENT COMPARATIVE SUMMARIES OF ELECTRICITY DISTRIBUTED AND BILLED YEAR ENDED DECEMBER 31,

	2022	2021	2020
Sale of electricity:			
Sales to consumers	\$ 11,859,904	\$ 11,011,640	\$ 11,314,970
Sales to other utilities	180,750	169,464	180,694
Sales for resale	4,788,408	12,172,842	2,320,158
	<u>16,829,062</u>	<u>23,353,946</u>	<u>13,815,822</u>
Kilowatt hours:			
Wind generation	5,083,400	4,739,000	5,125,016
Generated	30,389,381	41,608,785	20,966,623
Purchases	137,164,117	142,410,867	150,943,416
System losses (transmission)	(3,406,308)	(3,409,308)	(3,366,786)
Available for sale	169,230,590	185,349,344	173,668,269
Billed to consumers	111,259,188	110,635,149	109,679,978
Sales to other utilities	3,701,235	3,531,573	3,476,748
Sales for resale	49,954,515	64,930,508	56,289,058
Distribution loss	(4,315,652)	(6,252,114)	4,222,485
Distribution loss percent	-3.62%	-5.19%	3.60%
Revenue billed per kWh to consumers	\$ 0.1066	\$ 0.0995	\$ 0.1032
Peak hour demand in kilowatts	22,840	23,740	22,820
Services provided to the City			
Street lighting:			
Energy	\$ 28,602	\$ 29,709	\$ 29,930
Operation and Maintenance	16,695	31,908	43,687
	45,297	61,617	73,617
Other Maintenance Costs	24,217	24,217	18,852
Energy for Public Buildings, Parks and Other uses	152,711	139,755	150,763
	<u>\$ 222,225</u>	<u>\$ 225,589</u>	<u>\$ 243,232</u>
Year to date kWh sales			
Residential	28,546,014	28,214,085	28,401,068
Commercial	83,030,428	82,702,946	81,585,134
Area Lighting	501,470	536,281	536,488
Station Power	1,645,150	1,570,780	1,515,440
City	1,237,361	1,142,631	1,118,596
Total number of kWh sales	<u>114,960,423</u>	<u>114,166,723</u>	<u>113,156,726</u>

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 2

**WATER DEPARTMENT
COMPARATIVE SUMMARIES OF WATER PUMPED AND BILLED
YEAR ENDED DECEMBER 31,**

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total revenue billed	<u>\$ 1,871,177</u>	<u>\$ 1,779,246</u>	<u>\$ 1,649,368</u>
Cubic Foot			
Pumped	32,843,512	34,966,741	34,893,956
Billed	29,222,398	29,507,827	28,518,834
City of Algona	448,154	436,202	350,050
System loss	(3,172,960)	(5,022,712)	(6,025,072)
Percent loss	-9.66%	-14.36%	-17.27%
Revenue billed per cubic foot	\$ 0.0631	\$ 0.0594	\$ 0.0571
Peak day-cubic footage pumped	186,511	172,507	155,625
Services provided to City			
Water for parks, disposal plant and public buildings	\$ 22,808	\$ 25,795	\$ 21,035
Public fire protection	52,772	57,974	56,376
	<u>\$ 75,580</u>	<u>\$ 83,769</u>	<u>77,411</u>

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 3

**COMMUNICATIONS
COMPARATIVE SUMMARIES OF CABLE, INTERNET, AND TELEPHONE
YEAR ENDED DECEMBER 31,**

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenue:			
Cable TV	\$ 1,257,945	\$ 1,300,511	\$ 1,372,543
Internet	1,813,501	1,687,051	1,491,138
Telephone	597,699	637,439	711,889
Cell phone	-	-	963
Miscellaneous	<u>90,173</u>	<u>114,234</u>	<u>229,037</u>
Total operating revenue	<u><u>\$ 3,759,318</u></u>	<u><u>\$ 3,739,235</u></u>	<u><u>3,805,570</u></u>
Customers			
Cable TV	973	1,052	1,243
Internet	2,261	2,223	2,193
Telephone	784	918	1,004
Average monthly revenue per customer			
Cable TV	107.74	103.02	92.02
Internet	66.84	63.24	56.66
Telephone	63.53	57.86	59.09
Services provided to City			
Cable TV	\$ 3,538	\$ 2,496	\$ 1,837
Internet	7,104	6,671	6,201
Telephone	<u>12,071</u>	<u>11,526</u>	<u>11,274</u>
	<u><u>\$ 22,713</u></u>	<u><u>\$ 20,693</u></u>	<u><u>19,312</u></u>

Unaudited - See Accompanying Independent Auditor's Report



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of
Algona Municipal Utilities:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Algona Municipal Utilities, as of and for the year ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated April 26, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance which is described in Part II of the accompanying Schedule of Findings.

Comments involved statutory and other legal matters about the Utility's operations for the year ended December 31, 2022 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on test and samples, not all transactions that might have an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Algona Municipal Utility's Response to the Findings

The Utility's responses to the findings identified in our audit is described in the accompanying Schedule of Findings. The Utility's responses were noted subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

TP Anderson & Company, PC

Humboldt, Iowa

April 26, 2023

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

SCHEDULE OF FINDINGS

Part I: Findings Related to the Financial Statements

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

MATERIAL WEAKNESSES:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

- | | |
|---------|---|
| II-A-22 | <u>Certified Budget</u> – Disbursements during the year ended December 31, 2022 did not exceed the amounts budgeted. |
| II-B-22 | <u>Questionable Disbursement</u> – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted. |
| II-C-22 | <u>Travel Expense</u> – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted. |
| II-D-22 | <u>Business Transactions</u> – No business transactions between the Utility and Utility officials or employees were noted. |
| II-E-21 | <u>Bond Coverage</u> – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations. |
| II-F-22 | <u>Board Minutes</u> – No transactions were found that we believe should have been approved in the Board minutes but were not. Minutes of Board proceedings were published in accordance with Chapter 372.13(6) of the Code of Iowa. |
| II-G-22 | <u>Revenue Bonds</u> – No instances of noncompliance with revenue bond provisions were noted. |
| II-H-22 | <u>Deposits and Investments</u> – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy. |
| II-I-22 | <u>Telecommunication Services</u> – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted. |

II-J-22 Financial Condition – At December 31, 2022, the Communications Utility had deficit net position of \$682,238.

Recommendation – The Utility should investigate alternatives to eliminate this deficit and return the Communications Utility to a sound financial position.

Response – The Utility will review available resources to return these funds to a sound financial position.

Conclusion – Response Accepted.